

Reynolds Williams
Chairman

James R. Powers
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Grady L. Patterson, Jr.
State Treasurer

Robert L. Borden, CFA
Chief Investment Officer

State of South Carolina

Retirement System Investment Commission



Post Office Box 11960
COLUMBIA, SOUTH CAROLINA 29211

Blaine Ewing

Allen R. Gillespie, CFA

S. Travis Pritchett

Nancy E. Shealy
Administrative Director
and General Counsel

August 28, 2006

The Honorable Mark Sanford
Governor of the State of South Carolina
Post Office Box 12267
Columbia, South Carolina 29211

RE: Budget Plan for FY 2007-08

Dear Governor Sanford:

The South Carolina Retirement System Investment Commission (Commission) is a new State agency created by Act 153 of 2005 (Act 153). Act 153 created the Commission to consolidate the investment functions to effectively manage the defined benefit retirement funds of the South Carolina Retirement Systems (Retirement System) as fiduciaries and to enhance long-term investment performance. The Commission's mission is to fulfill its fiduciary responsibility by prudently managing all assets held in trust for the sole benefit of participants and beneficiaries of the Retirement System, seeking superior long-term investment results at an acceptable level of risk. While the expected results and outcome measures of the Commission's mission will be subject to constraints imposed by law, prudent investment management, and the performance of money and capital markets over 20- to 30-year periods, the Commission's activity is to:

- set investment objectives and policies and create investment strategies within prudent standards
- coordinate, establish, and maintain a disciplined investment process incurring reasonable expenses to ensure the funds are invested in a prudent manner consistent with fiduciary standards
- provide attentive management and monitoring of performance and investment managers to ensure prudent investing and compliance with investment policies, plans, and applicable laws
- administer contracts and monitor operations of investment managers to ensure implementation of changes and compliance
- provide for open decision-making and transparency of the decision-making process
- attend and/or provide continuing education on fiduciary responsibility and investment standards to maintain and improve knowledge to provide optimal services to the pension trust funds
- monitor compliance with statutory requirements, contractual arrangements, Freedom of Information Act (FOIA) requests, investment plans/policies, and securities litigation/claims administration to meet fiduciary standards

The Commission is funded solely by the pension trust funds. While the Commission is an independent agency, we seek to minimize costs to the trust funds by sharing resources with the Retirement System to the extent feasible.

Pursuant to S.C. Code Ann. §9-16-315(G), the Commission employs a chief investment officer and has the authority to employ other professional, administrative, and clerical personnel it determines necessary. The Commission currently employs three (3) FTEs and two temporary employees (college interns). Currently we occupy office space at the Gressette-Collins Building at 202 Arbor Lake Drive, Columbia, SC, which is owned and also occupied by the Retirement System. The FY 2006-07 General Appropriation Act authorized the Commission to hire eight (8) additional FTEs. We have begun recruiting for three (3) of those positions, although we will be unable to fill the remaining vacancies until additional office facilities are available. Facilities at the Retirement System are inadequate for the necessary investment staff and operations, so after evaluating strategic plans and cost analyses, the Commission submitted a request for additional office space to meet the needs of the investment program currently and over the next 2-3 years.

The Commission requests approval for two (2) additional FTE positions during FY2007-08 to meet its core administrative/compliance staffing needs. These two positions along with the vacant FTE positions from the current fiscal year should provide the Commission with a baseline infrastructure for the investment program based on current asset allocations. The Chief Investment Officer also intends to continue the intern program to provide additional educational opportunities for college students, to provide the Commission with additional cost-effective resources, and to train future investment professionals.

One of the visions of the Commission in fulfilling its fiduciary responsibility to invest the assets of the Retirement System prudently is to strive for low investment expenses, so avoiding duplicative costs and exploring cost savings measures is part of our mandate. As the Commission continues to establish the agency and investment functions to provide optimal services to the trust funds, we will continue to diligently follow our mandate to develop and maintain investment operations in a prudent and cost efficient manner.

Attached are the applicable documents you requested relating to the Budget Plan for FY 2007-08: Executive Summary, Detailed Justification for FY 2007-08 Operating Budget Priorities, and Addendum for FY 2007-08 Cost Savings & Activity Priority Assessment. The Commission has no Capital Budget Priorities at this time, so Form III has been omitted. The Commission does not seek any changes to provisos at this time, so Form IV has been omitted also.

As always, thank you for your assistance in this matter. If you have any questions or need additional information, please contact me at 843-662-3258 (Reynolds@willcoxlaw.com) or Nancy Shealy at 803-737-6937 (nshealy@retirement.sc.gov).

Sincerely,

Reynolds Williams
Chairman

Attachments

FISCAL YEAR 2007-08 BUDGET PLAN

I. EXECUTIVE SUMMARY

A. Agency Section/Code/Name: 60A / E19 / Retirement System Investment Commission

B. Statewide Mission: The Retirement System Investment Commission's (RSIC) mission is to fulfill its fiduciary responsibility to invest the defined benefit retirement system funds (SCRS) by prudently managing all assets held in trust for the sole benefit of the SCRS, seeking superior long-term investment results at an acceptable level of risk, incurring reasonable investment expense.

C. Summary Description of Strategic or Long-Term Goals:

(1) Maintain a disciplined investment process incurring reasonable investment expenses, provide for transparency of the decision-making process, oversee managers and operations to ensure implementation of changes and compliance, set investment objectives, policies, and strategies within prudent standards, provide attentive management and monitoring of performance and managers to ensure prudent investing and compliance with the investment policies/plan and applicable laws, attain high risk-adjusted alpha relative to appropriate benchmarks, attend and/or provide education on related topics to maintain and improve knowledge to provide optimal services to pension trust funds, and monitor compliance of the RSIC with statutory requirements, contractual arrangements, Freedom of Information Act requests, investment plans/policies, and securities litigation/claims administration to meet fiduciary standards.

(2)

(3)

D.

Summary of Operating Budget Priorities for FY 2007-08:		FUNDING					FTEs			
		State Non-Recurring	State Recurring	Federal	Other	Total	State	Fed.	Other	Total
Priority No.:	Title: Investment Operations	0	0	0	179,200	\$179,200	0	0	2	2.00
Strategic Goal No. Referenced in Item C Above <i>(if applicable)</i> : Activity Number & Name: 1659 Investment Operations										
Priority No.:	Title:	0	0	0	0	\$ 0	0	0	0	0.00

Summary of Operating Budget Priorities for FY 2007-08:		FUNDING				FTEs				
		State Non- Recurring	State Recurring	Federal	Other	Total	State	Fed.	Other	Total
Strategic Goal No. Referenced in Item C Above <i>(if applicable)</i> : Activity Number & Name:										
Priority No.:	Title:	0	0	0	0	\$ 0	0	0	0	0.00
Strategic Goal No. Referenced in Item C Above <i>(if applicable)</i> : Activity Number & Name:										
TOTAL OF ALL PRIORITIES		\$ 0	\$ 0	\$ 0	179,200	\$179,200	0.00	0.00	2.00	2.00

E. Agency Recurring Base Appropriation:

State \$
Federal \$
Other \$

F. Efficiency Measures:

G.

Summary of Capital Budget Priorities:			Additional State Funds	Previously Authorized State Funds	Total Other Fund Sources	Project Total
Priority No.:	<u>Project Name:</u> Activity Number & Name:	Project No*:	0	0	0	\$ 0
Priority No.:	<u>Project Name:</u> Activity Number & Name:	Project No*:	0	0	0	\$ 0
Priority No.:	<u>Project Name:</u> Activity Number & Name:	Project No*:	0	0	0	\$ 0
TOTAL OF ALL CAPITAL BUDGET PRIORITIES			\$ 0	\$ 0	\$ 0	\$ 0

* If applicable

H. Number of Proviso Changes: 0

I. Signature/Agency Contacts/Telephone Numbers: _____(Chairman)

Nancy E. Shealy, Administrative Director & General Counsel
PO Box 11960, Columbia, SC 29211 Phone: (803) 737-6937

Reynolds Williams, Chairman
c/o Willcox, Buyck & Williams
Post Office Box 1909
Florence, South Carolina 29503 Phone: (843) 662-3258

II. DETAILED JUSTIFICATION FOR FY 2007-08 OPERATING BUDGET PRIORITIES

A. Agency Section/Code/Name: 60A / E19 / Retirement System Investment Commission

B. Priority No. 1 of 1

C. (1) Title: Investment Operations

(2) Summary Description: To fulfill fiduciary responsibility by prudently investing all assets held in trust for the sole benefit of the SCRS, seeking superior long-term investment results at an acceptable level of risk.

(3) Strategic Goal/Action Plan (*if applicable*):

D. Budget Program Number and Name: Agency-wide

E. Agency Activity Number and Name: 1 / Investment Operations

F. Detailed Justification for Funding

(1) Justification for Funding Increase: The additional FTEs will provide services to ensure fiduciary standards are met for prudently investing the assets of the SCRS, which will include internal processing, monitoring, verification, and reporting to ensure compliance with applicable laws, policies, strategies, etc., and to provide additional resources to enhance investment operations.

(2)

FY 2007-08 Cost Estimates:	State Non-Recurring Funds	State Recurring Funds	Federal	Other	Total
Personnel:					
(a) Number of FTEs*				2.00	2.00
(b) Personal Service				\$140,000	\$140,000
(c) Employer Contributions				\$39,200	\$39,200
Program/Case Services					\$ 0

Pass-Through Funds					\$ 0
Other Operating Expenses					\$ 0
Total	\$ 0	\$ 0	\$ 0	\$179,200	\$179,200
<i>* If new FTEs are needed, please complete Section G (Detailed Justification for FTEs) below.</i>					

(3)Base Appropriation:

State \$
Federal \$
Other \$

(4) Is this priority associated with a Capital Budget Priority? no If yes, state Capital Budget Priority Number and Project Name: _____.

G. Detailed Justification for FTEs

(1) Justification for New FTEs

- (a) Justification: The additional FTEs will provide services to ensure fiduciary standards are met for prudently investing the assets of the SCRS, which will include internal processing, monitoring, verification, and reporting to ensure compliance with applicable laws, policies, strategies, etc., and to provide additional resources to enhance investment operations.
- (b) Future Impact on Operating Expenses or Facility Requirements: Routine additional expenses will be incurred for facilities (office space and equipment).

(2) Position Details:

	State	Federal	Earmarked	Restricted	Total
Position Title:					
(a) Number of FTEs				1.00	1.00
(b) Personal Service				\$90,000	\$90,000
(c) Employer Contributions				\$25,200	\$25,200

	State	Federal	Earmarked	Restricted	Total
Position Title:					
(a) Number of FTEs				1.00	1.00
(b) Personal Service				\$50,000	\$50,000
(c) Employer Contributions				\$14,000	\$14,000

(3)FTEs in Program Area per FY 2006-07 Appropriation Act:

State	_____
Federal	_____
Other	<u>11</u>

Agency-wide Vacant FTEs as of July 31, 2006: 8

% Vacant 72.7 %

H. Other Comments: The RSIC is a new agency that was created by Act 153 of 2005, effective October 1, 2005. Per Act 153, three FTE positions relating to the investment operations of the State Budget and Control Board were transferred to the RSIC. Those positions are filled, and eight additional FTE positions for FY 2006-07 were approved effective July 1, 2006. Of those eight positions, seven were requested by the investment division to provide core investment research, analysis, and portfolio management under current state law, and one position was requested by the administrative division to provide accounting/fiscal management and various reporting assistance. The RSIC maintains office space with the SCRS and is recruiting for three investment positions currently. However, recruiting for the additional positions cannot begin until adequate office space is acquired, which is pending. The positions requested for FY 2007-08 will provide independent, internal compliance monitoring, verification, and reporting for various investment and accounting functions and support for human resources and benefits administration/reporting to ensure compliance with applicable state and federal laws and fiduciary standards. All new FTE positions will be evaluated and approved by the RSIC prior to implementation.

FY 2007-08 COST SAVINGS & ACTIVITY PRIORITY ADDENDUM

I. 2% COST SAVINGS ASSESSMENT

A. Agency Section/Code/Name: 60A / E19 / Retirement System Investment Commission

B. Agency Activity Number and Name: 1 / Investment Operations

C. Explanation of Cost Savings Initiative: While building the new agency, which became effective October 1, 2005, the RSIC evaluates proposed activities, functions, and savings opportunities to minimize costs associated with developing and maintaining investment operations in a prudent manner. One of the visions of the RSIC in fulfilling its fiduciary responsibility to invest the assets of the SCRS prudently is to strive for low investment expenses, so avoiding duplicative costs and exploring cost savings measures is part of the RSIC's mandate. The RSIC will continue to evaluate and explore ways to minimize costs in all areas relating to the investment of the SCRS' assets.

D. Estimate of Savings:

FY 2007-08 Cost Savings Estimates:	General	Federal	Other	Total
Personnel:				
(a) Number of FTEs				0.00
(b) Personal Service				\$ 0
(c) Employer Contributions				\$ 0
Program/Case Services				\$ 0
Pass-Through Funds				\$ 0
Other Operating Expenses				\$ 0
Total	\$ 0	\$ 0	\$ 0	\$ 0

E. Activity Impact (*Describe the impact on the activity affected including the impact on customers and clients.*):

F.

Summary of Cost Savings Initiatives for FY 2007-08:	FUNDING				FTEs			
	General	Federal	Other	Total	State	Fed.	Other	Total
Initiative Title:	0	0	0	\$ 0	0	0	0	0.00
Activity Number & Name:								
Initiative Title:	0	0	0	\$ 0	0	0	0	0.00
Activity Number & Name:								
Initiative Title:	0	0	0	\$ 0	0	0	0	0.00
Activity Number & Name:								
TOTAL OF ALL INITIATIVES	\$ 0	\$ 0	\$ 0	\$ 0	0.00	0.00	0.00	0.00

FY 2007-08 COST SAVINGS & ACTIVITY PRIORITY ADDENDUM

II. PRIORITY ASSESSMENT OF AGENCY ACTIVITIES

- A. Agency Section/Code/Name:
- B. Agency Activity Number and Name:
- C. Explanation of Lowest Priority Status:
- D. Estimate of Savings:

Estimate of Savings:	General	Federal	Supplemental	Capital Reserve	Other	Total
Personnel:						
(a) Number of FTEs	0	0	0	0	0	0.00
(b) Personal Service	0		0	0	0	\$ 0
(c) Employer Contributions	0		0	0	0	\$ 0
Program/Case Services	0	0	0	0	0	\$ 0
Pass-Through Funds	0	0	0	0	0	\$ 0
Other Operating Expenses	0	0	0	0	0	\$ 0
Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

- E. Activity Impact (*Describe the impact on the activity affected including the impact on customers and clients.*):

F.

Summary of Priority Assessment of Activities	General	Federal	Supplemental	Capital Reserve	Other	Total	FTEs
Activity Number & Name:	0	0	0	0	0	\$ 0	0
Activity Number & Name:	0	0	0	0	0	\$ 0	0
Activity Number & Name:	0	0	0	0	0	\$ 0	0
Activity Number & Name:	0	0	0	0	0	\$ 0	0
Activity Number & Name:	0	0	0	0	0	\$ 0	0
TOTAL OF LOWEST PRIORITIES	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	0.00